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EXPOSURE DRAFT

PROPOSED STATEMENT ON AUDITING STANDARDS

**DEFINING PROFESSIONAL REQUIREMENTS IN
STATEMENTS ON AUDITING STANDARDS**

PROPOSED STATEMENT ON STANDARDS FOR ATTESTATION ENGAGEMENTS

**DEFINING PROFESSIONAL REQUIREMENTS IN
STATEMENTS ON STANDARDS FOR
ATTESTATION ENGAGEMENTS**

March 2, 2005

**Prepared by the AICPA Auditing Standards Board for comment from persons interested in
auditing and reporting issues**

**Comments should be received by May 15, 2005, and should be addressed to
Sherry Boothe, Audit and Attest Standards,
AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775
or via the Internet to sboothe@aicpa.org.**

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March 2, 2005

Accompanying this letter is an exposure draft, approved by the Auditing Standards Board (ASB), of a proposed Statement on Auditing Standards (SAS) entitled *Defining Professional Requirements in Statements on Auditing Standards* and a proposed Statement on Standards for Attestation Engagements (SSAE) entitled *Defining Professional Requirements in Statements on Standards for Attestation Engagements*. The proposed SAS and SSAE define the terminology the ASB will use to describe the degrees of responsibility that the requirements impose.

A summary of the significant provisions of the proposed SAS and SSAE accompanies this letter.

Comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate the ASB's consideration of responses, comments should refer to specific paragraphs and include supporting reasons for each suggestion or comment.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after June 15, 2005, for one year. Responses should be sent to Sherry Boothe, Audit and Attest Standards, AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775 in time to be received by May 15, 2005. Responses may also be sent by electronic mail to sboothe@aicpa.org.

Sincerely,

John A. Fogarty
Chair
Auditing Standards Board

Charles E. Landes
Director
Audit and Attest Standards

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SUMMARY

WHY ISSUED AND WHAT IT DOES

In serving the public interest, the Auditing Standards Board (ASB) aims to set high quality auditing and assurance standards for nonissuers¹ that are understandable, clear, and capable of consistent application, thereby serving to enhance the quality and uniformity of practice. In doing so, the ASB seeks to balance the needs of a wide range of users, including auditors, those responsible for governance, regulators, and the public in general.

Until now, the accounting profession has not expressly defined imperatives used to describe different degrees of the auditor's responsibility when conducting audit engagements in accordance with generally accepted auditing standards and attestation engagements in accordance with the attestation standards. The ASB believes that by defining the levels of responsibilities, auditing and attestation standards will be clarified, thereby assisting auditors and practitioners with their work and improving the quality of audits and attestation engagements. The ASB also believes that using a definition of these imperatives in common with that used by the Public Companies Accounting Oversight Board (PCAOB) and that proposed by the International Auditing and Assurance Standards Board (IAASB) promotes common understanding of the audit or attestation engagement in the United States and abroad and, accordingly, is in the public interest.

This exposure draft introduces a proposed Statement on Auditing Standards (SAS) entitled *Defining Professional Requirements in Statements on Auditing Standards* and a proposed Statement on Standards for Attestation Engagements entitled *Defining Professional Requirements in Statements on Auditing Standards for Attestation Engagements*. The proposed SAS and SSAE define the terminology the ASB will use to describe the degrees of responsibility that the requirements impose on the auditor or the practitioner.

The proposed SAS and SSAE define two categories of professional requirements:

- *Requirements* – The auditor or practitioner is required to comply with a requirement in all cases in which the circumstances exist to which the requirement applies. A requirement is indicated by the words *must* or *is required*.
- *Presumptive requirements* – The auditor or practitioner is also required to comply with a presumptive requirement in all cases in which the circumstances exist to which the presumptive requirement applies, but in rare circumstances, the auditor or practitioner may depart from a presumptive requirement provided he or she documents his or her justification for departure and how alternative procedures performed in the circumstances were sufficient to achieve the objectives of the presumptive requirement. The word *should* indicates a presumptive requirement.

SASs and SSAEs also contain explanatory material that is intended to provide further explanation and guidance on the professional requirements. Such explanatory material is intended to be descriptive rather than imperative. All professional requirements that a SAS or SSAE impose on the auditor or practitioner will be identifiable by the use of *must*, *is required*, or *should* statements.

The definitions in the proposed SAS are consistent with the terms adopted by the PCAOB in Rule 3101, *Certain Terms Used in Auditing and Related Professional Practice Standards*, and the

¹ The term *issuer* means an issuer (as defined in section 3 of the Securities Exchange Act of 1934 (15 U.S.C. 78c)), the securities of which are registered under section 12 of that Act (15 U.S.C. 78l), or that is required to file reports under section 15(d) (15 U.S.C. 78o(d)), or that files or has filed a registration statement that has not yet become effective under the Securities Act of 1933 (15 U.S.C. 77a et seq.), and that it has not withdrawn. A *nonissuer* refers to any entity not subject to the Sarbanes-Oxley Act of 2002 or Securities and Exchange Commission rules.

definitions proposed by the IAASB in its exposure draft, *Proposed Policy Statement, "Clarifying Professional Requirements in International Standards Issued by the IAASB."*

The comment period for this exposure draft ends on May 15, 2005.

HOW IT AFFECTS EXISTING STANDARDS

Although the degree of responsibility attached to the terms *must*, *is required*, and *should* was not previously defined, the ASB believes that the terminology, as defined in this proposed SAS and SSAE, is consistent with the existing interpretation of the SASs and SSAEs. The provisions of these Statements will apply to existing SASs and SSAEs. This approach is consistent with the adoption of the use of terms by the PCAOB. The provisions of these Statements are not intended to apply to interpretive guidance issued by the ASB.

The drafting conventions in the proposed SAS and SSAE will be applied on a prospective basis to exposure drafts approved for issue after final approval of this SAS and SSAE. Like the IAASB, the ASB intends to review all standards on a regular basis and to address national issues as circumstances require.

PROPOSED STATEMENT ON AUDITING STANDARDS

DEFINING PROFESSIONAL REQUIREMENTS IN STATEMENTS ON AUDITING STANDARDS

INTRODUCTION

1. This Statement on Auditing Standards (SAS) sets forth the meaning of certain terms used in SASs issued by the Auditing Standards Board in describing the professional requirements imposed on auditors.

DEFINING PROFESSIONAL REQUIREMENTS IN STATEMENTS ON AUDITING STANDARDS

Professional Requirements

2. SASs contain professional requirements together with related guidance in the form of explanatory and other material, including appendixes. Auditors have a responsibility to consider the entire text of a SAS in carrying out their work on an engagement and in understanding and applying the professional requirements of the relevant SAS(s).

3. Not every paragraph of a SAS carries a professional requirement that the auditor is expected to fulfill. Rather, the professional requirements are communicated by the language and the meaning of the words used in the SASs.

4. SASs use two categories of professional requirements, identified by specific terms, to describe the degree of responsibility they impose on auditors, as follows:

- *Requirements* – The auditor is required to comply with a requirement in all cases in which the circumstances exist to which the requirement applies. SASs use the words *must* or *is required* to indicate a requirement.
- *Presumptive requirements* – The auditor is also required to comply with a presumptive requirement in all cases in which the circumstances exist to which the presumptive requirement applies, but, in rare circumstances, the auditor may depart from a presumptive requirement provided that the auditor documents why he or she decided to do so and how the alternative procedures performed in the circumstances were sufficient to achieve the objectives of the presumptive requirement. SASs use the word *should* to indicate a presumptive requirement.

If a SAS provides that a procedure or action is one that the auditor “should consider,” the consideration of the procedure or action is presumptively required, whereas carrying out the procedure or action is not. The professional requirements of a SAS are to be understood and applied in the context of the explanatory and other material that provides guidance for their application.

Explanatory Material

5. SASs contain explanatory material that is intended to provide further explanation and guidance on the professional requirements. Such explanatory material is intended to be descriptive rather than imperative. That is, it explains the objective of the professional requirements (where not otherwise self-evident); it explains why the auditor might consider or employ particular procedures, depending on the circumstances; and it provides additional information for the auditor to consider in exercising professional judgment in performing the engagement.

6. Explanatory material may also identify and describe other procedures or actions relating to the activities of the auditor. Such guidance is not intended to impose a professional requirement for the auditor to perform the suggested procedures or actions. Rather, these procedures or actions require the auditor's attention and understanding; how and whether the auditor carries out such procedures or actions in the engagement will depend on the exercise of professional judgment in the circumstances consistent with the objective of the standard.

Application

7. The provisions of this Statement will apply to existing SASs.¹ The drafting conventions in this Statement will be applied on a prospective basis to exposure drafts approved for issue after final approval of this Statement.

¹ The specific terms used to define professional requirements in this Statement are not intended to apply to interpretive publications issued under the authority of the Auditing Standards Board. Interpretive publications consist of auditing Interpretations of the SASs, appendixes to the SASs provided that those appendixes do not modify other SASs, auditing guidance included in AICPA Audit and Accounting Guides, and AICPA auditing Statements of Position.

Appendix A

Amendment to Statement on Auditing Standards No. 95, *Generally Accepted Auditing Standards* (AICPA, *Professional Standards*, vol. 1, AU sec. 150, “Generally Accepted Auditing Standards”)

A1. This amendment adds a requirement that the auditor document how the alternative procedures performed were sufficient to achieve the objectives of the presumptive requirement. New language is shown in boldface italics; deleted language is shown by strikethrough.

- .04 The auditor should have sufficient knowledge of the SASs to identify those that are applicable to his or her audit. The nature of the 10 standards and the SASs requires the auditor to exercise professional judgment in applying them. Materiality and audit risk also underlie the application of the 10 standards and the SASs, particularly those related to field work and reporting.² The auditor ~~should be prepared to justify departures from the SASs.~~ ***must document in the working papers his or her justification for departures from a presumptive requirement and how alternative procedures performed in the circumstances were sufficient to achieve the objectives of the presumptive requirement.***

² See section 312, *Audit Risk and Materiality in Conducting an Audit*.

PROPOSED STATEMENT ON STANDARDS FOR ATTESTATION ENGAGEMENTS

DEFINING PROFESSIONAL REQUIREMENTS IN STATEMENTS ON STANDARDS FOR ATTESTATION ENGAGEMENTS

INTRODUCTION

1. This Statement on Standards for Attestation Engagements (SSAE) sets forth the meaning of certain terms used in SSAEs issued by the Auditing Standards Board in describing the professional requirements imposed on practitioners.

DEFINING PROFESSIONAL REQUIREMENTS IN STATEMENTS ON STANDARDS FOR ATTESTATION ENGAGEMENTS

Professional Requirements

2. SSAEs contain professional requirements together with related guidance in the form of explanatory and other material, including appendixes. Practitioners have a responsibility to consider the entire text of an SSAE in carrying out their work on an engagement and in understanding and applying the professional requirements of the relevant SSAE(s).

3. Not every paragraph of an SSAE carries a professional requirement that the practitioner is expected to fulfill. Rather, the professional requirements are communicated by the language and the meaning of the words used in the SSAEs.

4. SSAEs use two categories of professional requirements, identified by specific terms, to describe the degree of responsibility they impose on practitioners, as follows:

- *Requirements* – The practitioner is required to comply with a requirement in all cases in which the circumstances exist to which the requirement applies. SSAEs use the words *must* or *is required* to indicate a requirement.
- *Presumptive requirements* – The practitioner is also required to comply with a presumptive requirement in all cases in which the circumstances exist to which the presumptive requirement applies, but, in rare circumstances, the practitioner may depart from a presumptive requirement provided the practitioner documents why he or she decided to do so and how the alternative procedures performed in the circumstances were sufficient to achieve the objectives of the presumptive requirement. SSAEs use the word *should* to indicate a presumptive requirement.

If an SSAE provides that a procedure or action is one that the practitioner “should consider,” the consideration of the procedure or action is presumptively required, whereas carrying out the procedure or action is not. The professional requirements of an SSAE are to be understood and applied in the context of the explanatory and other material that provides guidance for their application.

Explanatory Material

5. SSAEs contain explanatory material that is intended to provide further explanation and guidance on the professional requirements. Such explanatory material is intended to be descriptive rather than imperative. That is, it explains the objective of the professional requirements (where not otherwise self-evident); it explains why the practitioner might consider or employ particular procedures, depending on the circumstances; and it provides additional

information for the practitioner to consider in exercising professional judgment in performing the engagement.

6. Explanatory material may also identify and describe other procedures or actions relating to the activities of the practitioner. Such guidance is not intended to impose a professional requirement for the practitioner to perform the suggested procedures or actions. Rather, these procedures or actions require the practitioner's attention and understanding; how and whether the practitioner carries out such procedures or actions in the engagement will depend on the exercise of professional judgment in the circumstances consistent with the objective of the standard.

Application

7. The provisions of this attestation standard will apply to existing SSAEs.¹ The drafting conventions in this attestation standard will be applied on a prospective basis to exposure drafts approved for issue after final approval of this attestation standard.

¹ The specific terms used to define professional requirements in this attestation standard are not intended to apply to any interpretive publications issued under the authority of the Auditing Standards Board, for example, Interpretations of the SSAEs, or appendixes to the SSAEs.